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STATE OF MONTANA

DEPARTMENT OF AGRICULTURE

Conducted Under Contract By
Mostad and Jackson, CPA's

Fiscal Year Ended June 30, 1976

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OVER VIEW

Audit of
Department of Agriculture
November, 1976

INTRODUCTION

The audit of the Department of Agriculture was a financial-compliance audit. The purpose of the audit was to determine whether the financial operations of the department were properly conducted, whether the financial statements were fairly presented for the audit period and whether the statutory duties of the Department of Agriculture were being performed according to law.

The audit covered the fiscal year ended June 30, 1976, and resulted in an adverse opinion on the financial statements. An adverse opinion means that the financial statements do not present fairly the financial position in conformity with generally accepted accounting principles. The reason for the adverse opinion was because accounts receivable of a material amount for two programs were not recorded in the SBAS accounting system.

There are seventeen recommendations in the audit report. These recommendations were discussed with the Commissioner of the Department of Agriculture and his accounting personnel. The Commissioner and his staff concurred with fifteen of these recommendations in entirety, concurred in part with one other recommendation and agreed to study the matter in one other recommendation.

SYNOPSIS OF MAJOR FINDINGS

There are several areas which we consider major findings that are presented in the audit report. These major findings are listed below.

CASH

In our review of cash it appeared to us that there was not an adequate separation of duties concerning the contingency bank account.

Recommendation

We recommended that the Department establish a policy of separation of duties concerning the contingency revolving fund and the Department concurred.

PROPERTY, PLANT, AND EQUIPMENT

A test of the records on equipment showed that the Department of Agriculture is properly marking each piece of equipment with a numbered tag. However, the Department has not made valuations on many acquisitions of prior years.

Recommendation

We recommended that the Department of Agriculture place a value on all existing equipment and update all records to reflect those valuations. The Department concurred.

RECEIVABLES AND INVESTMENTS

The Rural Rehabilitation Program which provides for advancement and development of rural Montana had, as of June 30, 1976, assets of \$235,133.00 recorded in SBAS. Outside of SBAS the program had assets of \$1,014,087.00 made up of the following: direct loans of \$382,345.00, real estate loans of \$566,742.00, and a Certificate of Deposit for \$65,000.00. These assets are recorded in detailed ledgers kept at the Department of Agriculture. At the present time the Department of Agriculture is working to implement procedures to record these assets in SBAS and to update

the present accounting records.

Recommendation

We recommended that a system be established in SBAS to provide full disclosure of all assets of the Rural Rehabilitation Program. The Department concurred.

The present form of accounting in SBAS for the disbursement of funds for loans does not conform to generally accepted accounting principles as applicable to governmental units. During the fiscal year 1975-1976, \$105,433.00 were disbursed as loans that will be repaid some time in the future. This amount was shown as a non-budgeted expenditure in the SBAS records. This entry is misleading because this amount is not an expenditure but an asset.

Recommendation

We recommended that the Department of Agriculture request a change in accounting method to reflect the Rural Rehabilitation Program's disbursement of cash for loans as an asset and not as an expenditure. The Department concurred.

Our review of receivables for the Department of Agriculture showed that the Hail Insurance Board had outstanding receivables as of June 30, 1976, in the amount of \$705,332.00. This amount is not reflected in the SBAS records as of June 30, 1976. The present system allows receivables at the fiscal year end to be recorded in the following year as a collection for that year. This system is misleading and does not present a true financial picture.

Detailed ledgers showing the amount of money due from any one individual are kept at the office of the Hail Insurance Board. Records that supplement these ledgers are also kept at the county

level. The primary responsibility for these receivables lies with the board; however, the destruction of the current records at the board office would necessitate the monumental task of reconstructing them county by county. The accountability for the amounts owed is adequate, but should the records ever be destroyed, reconstructing them would be very expensive.

Recommendation

We recommended that the Hail Insurance Board in conjunction with the Department of Agriculture ask for a feasibility study to determine if a system could be implemented through SBAS that would allow the board to provide additional control and accountability for the receivables and also to provide an additional back up of records in case the originals should ever be destroyed. The Department concurred.

GRAIN LAB AT GREAT FALLS

Our audit of the Grain Lab in Great Falls revealed that some checks were held at the lab for an excessive amount of time. As a result, when bank deposits were made, they were very large. According to the lab accountant, transactions during the year increased 20,000 to 80,000, and there was not time to make deposits at least once a week. The deposits averaged \$12,000 - \$15,000 and totaled \$307,723.00. The checks were held in a safe at the Grain Lab and deposited at least once a month. At present the Grain Lab safe provides some security for the deposits, but the lab cannot provide for adequate security against a total loss from natural causes, or a loss from theft in transporting the

deposits to the bank. The deposits should be made more frequently to provide security and additional internal control.

Recommendation

We recommended that the Grain Lab obtain additional personnel to assist with the larger work load and provide additional internal control. We also recommended that the Grain Lab revise its current procedures to provide for the depositing of all monies daily. The Department concurred.

PRIOR AUDITS

Our review of prior audits of the Board of Hail Insurance and the Department of Agriculture disclosed a number of recommendations from these prior audits which were not implemented. We discussed these points at length in our report and have recommended they be implemented at this time.

STAFF


During our examination of revenues we observed that various amounts of revenue were held for an excessive amount of time before being deposited. This occurs during peak periods when most licenses are issued. In July, 1976, \$3,509.00 was deposited that represented June, 1976 collections. These deposits did not reach the treasurer's office in time to be recorded in the correct fiscal year. Additional staff would have prevented this from happening. Also, during the audit most of the errors we found were clerical. Additional staff would have prevented the clerical errors and would also provide the additional internal control that is necessary to ensure that

the department follows all recommended procedures.

Recommendation

We recommended that the Department of Agriculture obtain additional staff to provide internal control and prevent clerical errors. The Department concurred.

November 30, 1976


MOSTAD & JACKSON, CPA's

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59601
406/449-3122



MORRIS L. BRUSETT
LEGISLATIVE AUDITOR

November 29, 1976

DEPUTY LEGISLATIVE AUDITORS:
JOSEPH J. CALNAN
ADMINISTRATION AND
PROGRAM AUDITS

ELLEN FEAVER
FINANCIAL COMPLIANCE AND
CONTRACTED AUDITS

STAFF LEGAL COUNSEL
JOHN W. NORTHEY

The Legislative Audit Committee
of the Montana State Legislature:

Transmitted herewith is the report on the audit of the Department
of Agriculture for the year ended June 30, 1976.

The audit was conducted by Mostad and Jackson, Certified Public
Accountants, under a contract between the firm and our office. The
comments and recommendations contained in this report represent the
views of the firm and not necessarily the Legislative Auditor.

The agency's written response to the report recommendations is
included in the back of the audit report.

Respectfully submitted,

Morris L. Bruset

Morris L. Bruset, C.P.A.
Legislative Auditor

TABLE OF CONTENTS

	<u>Page</u>
Summary of Recommendations	ii
Accountants' Report	1
Auditor's Comments	2
Introduction	2
General	4
Cash	7
Property, Plant and Equipment	7
Cash Disbursements and Expenditures	8
Payroll	8
Travel	9
Receivables and Investments	9
Grain Lab at Great Falls	11
Review of Prior Audits	13
Staff	18
Financial Statements	
Balance Sheet	19
Statement of Revenue Compared to Revenue Estimates	21A
Statement of Changes in Fund Balances	22
Statement of Support Expenditures Compared with Appropriations	25
Statement of Expenditures by Funds and Programs	26
Notes to the Financial Statements	31
Agency Reply	35

SUMMARY OF RECOMMENDATIONS

As a separate section in the front of each audit report we include a listing of all recommendations together with a notation as to whether the agency concurs or does not concur with each recommendation. This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's reply thereto and also as a ready reference to the supporting comments. The full reply of the Department of Agriculture is included in the back of this report.

	<u>Page</u>
Establish a policy of separation of duties concerning the contingency revolving fund.	7
<u>Agency Reply:</u> Concur. See page 35.	
Place a value on all existing equipment and update all records to reflect those valuations.	7
<u>Agency Reply:</u> Concur. See page 35.	
Establish a procedure for cancelling all invoices.	8
<u>Agency Reply:</u> Concur. See page 35.	
Establish procedures for authorizing signatures on payroll documentation and for ensuring that all payroll time sheets are timely received so that all employees are paid on a consistent basis.	9
<u>Agency Reply:</u> Partially concur. See page 36.	
One more person be assigned to assist the chief accountant in the screening of the travel claims for completeness, documentation, and clerical errors.	9
<u>Agency Reply:</u> Concur. See page 36.	
A system be established in SBAS to provide full disclosure of all assets of the Rural Rehabilitation Program.	10
<u>Agency Reply:</u> Concur. See page 36.	
Request a change in accounting method to reflect the Rural Rehabilitation Program's disbursement of cash for loans as an asset and not as an expenditure.	10
<u>Agency Reply:</u> Concur. See page 36.	
The Hail Insurance Board in conjunction with the Department of Agriculture ask for a feasibility study to determine if a system could be implemented through SBAS that would allow the board to provide	

SUMMARY OF RECOMMENDATIONS (Continued)

	<u>Page</u>
additional control and accountability for the receivables and also to provide an additional back up of records in case the originals should ever be destroyed.	11
<u>Agency Reply:</u> Concur. See page 37.	
The Grain Lab obtain additional personnel to assist with the larger work load and provide additional internal control. We also recommend that the Grain Lab revise its current procedures to provide for the depositing of all monies daily.	12
<u>Agency Reply:</u> Concur. See page 37.	
The Grain Lab undertake a review of current property, plant, and equipment procedures to correct the deficiencies noted; i.e., to dispose of all obsolete equipment, to update property lists, and to insure that all equipment is properly marked.	12
<u>Agency Reply:</u> Concur. See page 37.	
The Grain Lab implement procedures to record this outstanding receivable in SBAS.	13
<u>Agency Reply:</u> Concur. See page 37.	
The board revise its procedures to retain premium offsets in the state treasury and notify county treasurers by letter of the amounts by which premium assessments should be reduced.	14
<u>Agency Reply:</u> Agree to study this matter. See page 38.	
The board seek legislation to delete the requirement to pay two percent of the gross annual levy in the state to the General Fund.	14
<u>Agency Reply:</u> Concur. See page 38.	
The board notify the state auditor to mail warrants in payment of board claims directly to the payees.	15
<u>Agency Reply:</u> Concur. See page 38.	
The department investigate the feasibility of using data processing equipment to print, issue, control, and monitor the various licenses issued by the department.	16
<u>Agency Reply:</u> Concur. See page 38.	

SUMMARY OF RECOMMENDATIONS (Continued)

	<u>Page</u>
Seek an amendment to the agreement with the federal government which places administration of MRRC mineral rights with the Department of Agriculture; this amendment would allow implementation of a prior audit recommendation which stated "We recommend that the department seek the assistance of the Department of State Lands in administering the MRRC mineral interests."	18
<u>Agency Reply:</u> Concur. See page 38.	
Obtain additional staff to provide internal control and prevent clerical errors.	18
<u>Agency Reply:</u> Concur. See page 39.	

The Legislative Audit Committee
of the Montana State Legislature:

We have examined the balance sheet of the Department of Agriculture and related statements of operations and of changes in fund balance for the year ended June 30, 1976. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The Department of Agriculture does not maintain formal accounting records for fixed assets; therefore, building and equipment are not included in the accompanying balance sheet.

The Department of Agriculture maintains two programs that have accounting systems outside the Statewide Budgeting and Accounting System. The Hail Insurance Program as of June 30, 1976, had receivables not recorded in SBAS, and the Rural Rehabilitation Program had assets not recorded in SBAS.

Because of the materiality of the amounts referred to above, we are of the opinion that the aforementioned financial statements do not fairly present the financial position of the Department of Agriculture at June 30, 1976, or the results of its operations or the changes in the fund balances for the year in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Mostad & Jackson

DEPARTMENT OF AGRICULTURE

Auditor's Comments

Introduction

The primary purpose of our examination of the financial statements of the various funds of the Department of Agriculture for the period ended June 30, 1976, was to enable us to form an opinion as to the financial position of the various funds of the Department and the results of operations of such funds for the period then ended. As a part of our examination, we reviewed and tested the Department's system of internal accounting control to the extent considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of the evaluation was to establish a basis for reliance thereon in determining the nature, timing, and extent of auditing procedures that were necessary for expressing an opinion on the financial statements.

The objective of internal accounting control is to provide a reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgements by management.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal

accounting control. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgment, carelessness or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management with respect either to the execution and recording of transactions or with respect to the estimates and judgments required in the preparation of financial statements; further, projection of any evaluation of internal accounting control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate.

Our study and evaluation of the Department of Agriculture's system of internal accounting control for the year ended June 30, 1976, would not necessarily disclose all weaknesses in the system.

COMMENTS

GENERAL

The principal goals of the Department of Agriculture are to promote the economic growth of Montana's agricultural and allied industries, to promulgate and enforce regulations relating to the production and marketing of food and fiber products, and to serve as advocate for the consumers of agricultural products.

ADMINISTRATION

The Administrative Department acts as management planner and coordinator for the activities of the various departments. Along with this function, the Administrative Department provides for rural development through loans to farmers, ranches, and farm youth organizations.

MARKETING AND TRANSPORTATION

The Marketing Bureau of the Department of Agriculture is responsible for providing leadership in agricultural products marketing. A primary responsibility of the bureau is to identify major needs in marketing and to develop programs that meet these needs.

The Transportation Bureau provides technical transportation expertise to Montana's agricultural producer and commodity groups.

PESTICIDE

The Pesticide Division is responsible for administering the Montana Pesticides Act, the Insect Surveillance and Detection Act, and special departmental programs in entomology and botany.

FEED AND FERTILIZER

The Feed and Fertilizer Program regulates the manufacture and distribution of fertilizer and commercial animal feeds, including pet foods, to insure that products are safe, effective, and correctly labeled. The program is responsible for licensing and inspecting dealers, for random sampling and analysis of products, and for taking legal action, when needed, to see that compliance is maintained.

HORTICULTURE

The Horticulture Program is responsible for enforcing regulatory laws controlling the marketing of agricultural commodities. The program issues Federal-State certificates on commodities grown in the state, investigate consumer complaints pertaining to the marketing of products sold by itinerant merchants, collects inspection fees, and assists USDA-APHIS by conducting insect surveys for Federal and State quarantine purposes. Also the program is responsible for the implementation and maintenance of a state-wide multiple inspection program involving horticulture, pesticide, seed, grain feed, and fertilizer laws.

WHEAT RESEARCH AND MARKETING

The Wheat Research and Marketing Division is responsible for encouraging and promoting intensive laboratory and field research into all phases of wheat and barley culture, production, marketing and use. The program is responsible for collecting wheat and barley assessments from all Montana elevators and feedlot operators.



GRAIN LABORATORY

The Montana Grain Laboratory provides grain grading and protein testing services done by inspectors licensed by the USDA. Grain laboratory services are provided on a fee basis making the program self-supporting.

APICULTURE

The Apiculture Division is responsible for the enforcement of Montana's apiculture laws and regulations. Functions of the division include inspecting apiaries within the state as well as bee-hives moving interstate quarantining of diseased apiaries, and registering all apiaries within Montana according to law. The division also provides educational information on beekeeping to the public.

HAIL INSURANCE

The State Board of Hail Insurance offers hail insurance to Montana grain growers and provides data and information on losses due to hail damage.

CASH

The Department of Agriculture maintains only one cash account outside the State Treasurer's Office, a checking account with the Bank of Montana in Helena. This account is a \$500.00 contingency revolving fund used only for travel advances. At June 30, 1976, there were no outstanding checks or deposits.

At the present time there is no separation of duties concerning this fund. The chief accountant handles all matters concerning the fund and is also authorized to sign the checks. Although there were no deficiencies concerning the proper documentation for the fund and no unusual expenditures, a policy for separation of duties should be implemented to provide added assurances that proper control and use of the fund continues.

Recommendation

We recommend that the Department of Agriculture establish a policy of separation of duties concerning the contingency revolving fund.

PROPERTY, PLANT, AND EQUIPMENT

A test of the records on equipment showed that the Department of Agriculture is properly marking each piece of equipment with a numbered tag. However, the Department has not made valuations on many acquisitions of prior years.

Recommendation

We recommend that the Department of Agriculture place a value on all existing equipment and update all records to reflect those valuations.

CASH DISBURSEMENTS AND EXPENDITURES

During our examination of cash disbursements and expenditures some minor clerical errors and a few procedural errors were found. The procedural errors involved a lack of cancellation of invoices. At the present time the Department of Agriculture does not have an established procedure for cancelling invoices. A procedure of this nature would provide additional internal control to insure that invoices are not paid more than once.

Recommendation

We recommend that the Department of Agriculture establish a procedure for cancelling all invoices.

PAYROLL

The Department of Agriculture established a policy of using payroll time reports in April of 1976. No determination of the propriety of individual payroll prior to this time could be made. The Department has now instituted bi-weekly time reports that are providing sufficient payroll information.

We noted that there is documentation in the payroll files that lacks an authorizing signature. This is especially true for employees that do not work in Helena, but it is also the case for some documentation on Helena personnel. Although this item is clerical in nature, the use of authorizing signatures provides internal control for payroll expenditures. The use of this process will insure that correct amounts are disbursed to each employee.

Employees working elsewhere than in Helena are on a two week time lag. The chief accountant explained that the payroll time sheets are not received in Helena on a timely basis to be processed for the current payroll period. Timely receipt of the payroll time sheets would enable all employees of the Department of Agriculture to be paid on a consistent basis.

Recommendation

We recommend that the Department of Agriculture establish procedures for authorizing signatures on payroll documentation and for ensuring that all payroll time sheets are timely received so that all employees are paid on a consistent basis.

TRAVEL

The examination of travel documentation revealed no misuse of travel funds. In some cases there were minor clerical errors concerning the travel expenditures. One of the claims tested did not have a supervisor's approval. Another travel claim was approved August 11, 1975, and paid on August 8, 1975. Some of the claims did not have documentation for miscellaneous expenses.

Recommendation

We recommend that one more person be assigned to assist the chief accountant in the screening of the travel claims for completeness, documentation, and clerical errors.

RECEIVABLES AND INVESTMENTS

The Rural Rehabilitation Program which provides for advancement and development of rural Montana had, as of June 30, 1976, assets of \$235,133.00 recorded in SBAS. Outside of SBAS the pro-

gram had assets of \$1,014.087.00 made up of the following: direct loans of \$382,345.00, real estate loans of \$566,742.00, and a Certificate of Deposit for \$65,000.00. These assets are recorded in detailed ledgers kept at the Department of Agriculture. At the present time the Department of Agriculture is working to implement procedures to record these assets in SBAS and to update the present accounting records.

Recommendation

We recommend that a system be established in SBAS to provide full disclosure of all assets of the Rural Rehabilitation Program.

The present form of accounting in SBAS for the disbursement of funds for loans does not conform to generally accepted accounting principles as applicable to governmental units. During the fiscal year 1975-1976, \$105,433.00 were disbursed as loans that will be repaid some time in the future. This amount was shown as a nonbudgeted expenditure in the SBAS records. This entry is misleading because this amount is not an expenditure but an asset.

Recommendation

We recommend that the Department of Agriculture request a change in accounting method to reflect the Rural Rehabilitation Program's disbursement of cash for loans as an asset and not as an expenditure.

Our review of receivables for the Department of Agriculture showed that the Hail Insurance Board had outstanding receivables as of June 30, 1976, in the amount of \$705,332.00. This amount is not reflected in the SBAS records as of June 30, 1976. The present system allows receivables at the fiscal year end to be

recorded in the following year as a collection for that year. This system is misleading and does not present a true financial picture.

Detailed ledgers showing the amount of money due from any one individual are kept at the office of the Hail Insurance Board. Records that supplement these ledgers are also kept at the county level. The primary responsibility for these receivables lies with the board; however, the destruction of the current records at the board office would necessitate the monumental task of reconstructing them county by county. The accountability for the amounts owed is adequate, but should the records ever be destroyed, reconstructing them would be very expensive.

Recommendation

We recommend that the Hail Insurance Board in conjunction with the Department of Agriculture ask for a feasibility study to determine if a system could be implemented through SBAS that would allow the board to provide additional control and accountability for the receivables and also to provide an additional back up of records in case the originals should ever be destroyed.

GRAIN LAB AT GREAT FALLS

Our audit of the Grain Lab in Great Falls revealed that some checks were held at the lab for an excessive amount of time. As a result, when bank deposits were made, they were very large. According to the lab accountant, transactions during the year increased 20,000 to 80,000, and there was not time to make deposits at least once a week. The deposits averaged \$12,000-\$15,000 and totaled \$307,723.00. The checks were held in a safe at the Grain Lab and deposited at least once a month.

At present the Grain Lab safe provides some security for the deposits, but the lab cannot provide for adequate security against a total loss from natural causes, or a loss from theft in transporting the deposits to the bank. The deposits should be made more frequently to provide security and additional internal control.

Recommendation

We recommend that the Grain Lab obtain additional personnel to assist with the larger work load and provide additional internal control. We also recommend that the Grain Lab revise its current procedures to provide for the depositing of all monies daily.

The review of property, plant, and equipment at the Grain Lab indicated that some of the equipment listed on the property, plant, and equipment sheets was not being used because of obsolescence. Also, property values were not assigned to pieces of equipment which are presently being used. Many pieces of equipment had property markings worn off.

Recommendation

We recommend that the Grain Lab undertake a review of current property, plant, and equipment procedures to correct the deficiencies noted; i.e., to dispose of all obsolete equipment, to update property lists, and to insure that all equipment is properly marked.

The Grain Lab bills and collects for tests performed by the lab. Receivable records are kept at the lab for all amounts outstanding. The receipts from the grain tests are recorded in SBAS but the outstanding receivables are not. At June 30, 1976, these receivables were approximately \$900.00.

Recommendation

We recommend that the Grain Lab implement procedures to record this outstanding receivable in SBAS.

REVIEW OF PRIOR AUDITS

The Board of Hail Insurance was audited for fiscal year 1969-1970. At that time various recommendations were made to the board. Of the recommendations made, all were implemented except the following:

LOSS PREMIUM OFFSET PROCEDURES

As previously pointed out, most state hail insurance premiums are paid through the county property tax structure in November, which is after the hail season. Insured hail losses are paid by the board during the season as soon as the claims are verified. In payment of the hail losses, if the insured has not previously paid his premium in cash, present board procedures provide that the board will deduct the amount of premium from the hail loss payment to the farmer and remit the amount withheld to the county treasurer to apply against the premium assessment. The treasurer then remits this amount back to the state with other collections in December.

We concur with the procedure of offsetting premiums against hail losses but we believe the remittance of the premiums withheld to the counties is not necessary. The present procedure requires more bookkeeping than is necessary and takes investable moneys out of the state treasury. For example, \$113,000.00 was held by counties because of this procedure in 1969 from the time of the hail loss payments until the premium amounts were returned to the state in December.

We believe a more appropriate procedure would be for the board to offset the premiums against hail losses as is currently done but to retain the premiums in the state treasury and notify the county treasurers by letter of the amounts collected. The counties can then reduce the assessments accordingly.

RECOMMENDATION

We recommend that the board revise its procedures to retain premium offsets in the state treasury and notify county treasurers by letter of the amounts by which premium assessments should be reduced.

PAYMENTS TO GENERAL FUND

During the 1969-70 fiscal year the board transferred to the State General Fund (1) two percent of the gross annual levy made and collected in the state (\$16,415), and (2) a pro rata fee of \$1,872.

The \$1,872 is the board's share of the cost of the state's central administrative services provided to state agencies as computed under the pro rata plan provided for in Chapter 11 of the 1969 Session Laws.

The \$16,415 payment was provided for by Section 82-1511, R.C.M. 1947, but the reason for the charge is not set out in the law. Authorization for this payment into the General Fund apparently was enacted at a rate estimated to cover services supplies by general fund agencies to the Board of Hail Insurance.

As the pro rata charge to state agencies operating from earmarked revenue funds is designed to recover the costs of administrative services provided by general fund agencies and levied in accordance with criteria which is uniform to all agencies, it is a more equitable charge than one based on a percentage of a gross amount.

The board should be required to pay only one of the two above charges. Since the pro rata charge is computed by a more realistic method, we believe the board should pay the charge based on the pro rata plan.

RECOMMENDATION

We recommend the board seek legislation to delete the requirement to pay two percent of the gross annual levy in the state to the General Fund.

WARRANT DISTRIBUTION

The board receives warrants from the State Auditor's Office to be forwarded to county treasurers and refund recipients.

In an earlier legislative audit report regarding internal control within the State Auditor's Office, we pointed out that internal control would be enhanced and efficiencies would result if the state auditor mailed warrants directly to the payees. The added internal control applies particularly to smaller state agencies where adequate segregation of duties is difficult.

RECOMMENDATION

We recommend the board notify the state auditor to mail warrants in payment of board claims directly to the payees.*

Recommendation

We recommend that the points from the prior audit be implemented.

The Department of Agriculture was audited for fiscal year 1970-1971. At that time various recommendations were made to the department. Of the recommendations made, all were implemented except the following:

Licensing Procedure

During the course of our audit we noted that a large part of the department's duties involve licensing in one form or another. In view of this we believe the opportunity exists for the department to reduce the cost of licensing, increase efficiency, and improve control over licenses issued through the use of data processing for the preparation of applications, mailing, providing master lists of licensees, and workload assignments for inspectors. In addition, data processing services could also provide simple advantages such as preparation of gum labels for addressing forms and utilization of machine forms which can be used as a combination application/envelope. Necessary input data could be obtained by compiling master lists

*This information was obtained from the June 30, 1970, audit of the Hail Insurance Board by the Office of the Legislative Auditor.

of licensing authority and type of licenses from existing records and files. These listings by name, address, type of license, and applicable fee could be prepared by division personnel, key-punched by the data processing center with resultant information and forms prepared by the data processing methods.

The department currently prepares approximately 2,000 license applications and periodic report forms. The data processing center informed us that the cost to prepare 1,000 addresses and, as a by-product, a listing of items prepared, would be \$134. Discussions with administering division personnel revealed that time spent on mailing and recording these applications and other forms approximated 1,100 hours a year. Although department personnel would still spend a certain amount of time in this work, we believe the hours spent would be greatly reduced. For this reason, as well as the fact that data processing offers mechanical means of record keeping, we believe that the department should consider the feasibility of using data processing for licensing.

RECOMMENDATION

We recommend that the department investigate the feasibility of using data processing equipment to print, issue, control, and monitor the various licenses issued by the department.*

Upon questioning the Department about the recommendation it was brought to our attention that repeated attempts had been made to obtain appropriations for the use of data processing concerning licenses. For the coming fiscal year the department has again asked for the appropriation but, as of the time of this report, no confirmation had been received that the appropriation had been approved.

Recommendation

We recommend that the prior audit point be implemented.

*This information was obtained from the June 30, 1971 audit of the Department of Agriculture by the Office of the Legislative Auditor.

Mineral Rights

Through MRRC program activities the state of Montana has acquired various types of mineral rights on certain properties located within the state.

These rights were acquired when the U.S. Government constructed various irrigation projects in the eastern part of Montana. These projects were sold to local area farmers and ranchers with financing provided by MRRC moneys, which at that time were administered by the Federal Government. In order to construct these projects, the land purchased included certain mineral rights and as the projects were sold the buyers had the option of purchasing these mineral rights. Those that were not purchased remained as MRRC assets and were returned to the state of Montana as the department assumed control of the MRRC program assets.

Department records indicate that the value of these mineral rights was \$8,064 at the time the rights were acquired years ago, and that the rights encompass approximately 5,700 acres. Although these rights represent an item of intrinsic value to the state, they are not recorded in any department or state accounting records.

Other mineral rights and interest owned by the state are recorded, filed, and administered by the Department of State Lands. In the interest of centralization, we believe the department should seek the assistance of the land department in a determination of the fair value of these mineral interests and transfer them to the land department for administrative purposes.

RECOMMENDATION

We recommend that the department seek the assistance of the Department of State Lands in administering the MRRC mineral interests.*

Upon questioning the department about the recommendation it was brought to our attention that the department had in fact contacted the State Department of Lands concerning this matter and the State Department of Lands refused to administer the mineral

*This information was obtained from the June 30, 1971 audit of the Department of Agriculture by the Office of the Legislative Auditor.

rights until such time as a title search was done on the existing titles. A further study by the Department of Agriculture revealed that the existing agreement with the Federal Government places sole administration for the mineral rights with the Department of Agriculture there by making the recommendation inapplicable.

Recommendation

We recommend that until such time as an amendment to the present agreement is sought with the Federal Government, the Department of Agriculture discontinue the implementation of the recommendation presented above.

STAFF

During our examination of revenues we observed that various amounts of revenue were held for an excessive amount of time before being deposited. This occurs during peak periods when most licenses are issued. In July, 1976, \$3,509.00 was deposited that represented June, 1976 collections. These deposits did not reach the treasurer's office in time to be recorded in the correct fiscal year. Additional staff would have prevented this from happening. Also, during the audit most of the errors we found were clerical. Additional staff would have prevented the clerical errors and would also provide the additional internal control that is necessary to insure that the department follows all recommended procedures.

Recommendation

We recommend that the Department of Agriculture obtain additional staff to provide internal control and prevent clerical errors.

FINANCIAL STATEMENTS

DEPARTMENT OF AGRICULTURE
ALL FUNDS
BALANCE SHEET
June 30, 1976

	General Fund	Commercial Fertilizer ERA	Grain Services ERA	Hail Insuranc Administratio ERA
ASSETS				
Revolving Fund Cash	\$ 500	\$ 0	\$ 0	\$ 0
Cash in Treasury	0	5,880	170,887	7,309
Expense Advance to Employees	914	0	0	0
Accrual Expenditures	22,676	0	0	0
Short Term Investments	0	0	0	0
Accrued Interest	0	0	0	0
Federal Securities	0	0	0	0
Other Investments	0	0	0	0
Unamortized Bond Premiums	0	0	0	0
Accounts Receivable	0	0	0	0
TOTAL ASSETS	<u>\$ 24,090</u>	<u>\$ 5,880</u>	<u>\$ 170,887</u>	<u>\$ 7,309</u>
LIABILITIES RESERVES AND FUND BALANCE				
Reserve For:				
Accrued Support				
Expenditures	\$ 22,676	\$ 0	\$ 4,336	\$ 5,479
Revolving Fund Cash	500	0	0	0
Expense Advance to				
Employees	914	0	0	0
Stale-Dated Warrants	0	0	0	117
Uncleared Collections	0	0	0	0
Fund Balances June 30, 1976	0	5,880	166,551	1,713
TOTAL LIABILITIES RESERVES AND FUND BALANCES	<u>\$ 24,090</u>	<u>\$ 5,880</u>	<u>\$ 170,887</u>	<u>\$ 7,309</u>

The accompanying notes are an integral part of these financial statements
(Continued)

DEPARTMENT OF AGRICULTURE
ALL FUNDS
BALANCE SHEET
June 30, 1976

	Commercial Feed ERA	Extension Service Fertilizer ERA	Experiment Station Fertilizer ERA	Rural Rehabilitat: FPGCA
<u>ASSETS</u>				
Revolving Fund Cash	\$ 0	0	0	\$ 0
Cash in Treasury	102,625	0	0	62,339
Expense Advances to Employees	0	0	0	0
Accrual Expenditures	0	0	0	0
Short Term Investments	0	0	0	172,794
Accrued Interest	0	0	0	0
Federal Securities	0	0	0	0
Other Investments	0	0	0	0
Unamortized Bond Premiums	0	0	0	0
Accounts Receivable	0	0	0	0
TOTAL ASSETS	<u>\$ 102,625</u>	<u>0</u>	<u>0</u>	<u>\$235,133</u>
<u>LIABILITIES RESERVES AND FUND BALANCE</u>				
Reserve For:				
Accrued Support				
Expenditures	\$ 3,613	0	0	\$ 0
Revolving Fund Cash	0	0	0	0
Expense Advance to Employees	0	0	0	0
Stale-Dated Warrants	0	0	0	0
Uncleared Collections	0	0	0	0
Fund Balances June 30, 1976	<u>99,012</u>	<u>0</u>	<u>0</u>	<u>235,133</u>
TOTAL LIABILITIES RESERVES AND FUND BALANCES	<u>\$ 102,625</u>	<u>0</u>	<u>0</u>	<u>\$235,133</u>

The accompanying notes are an integral part of these financial statements
(Continued)

DEPARTMENT OF AGRICULTURE
ALL FUNDS
BALANCE SHEET
June 30, 1976

	Marketing Services FPRA	Wheat Research and Market FPRA	Hail Insurance AA	Uncleared Collections and Refunds FPGC
<u>ASSETS</u>				
Revolving Fund Cash	\$ 0	\$ 0	0	\$ 0
Cash in Treasury	7,544	7,413	361,685	15,210
Expense Advances to Employees	0	0	0	0
Accrual Expenditures	0	0	0	0
Short Term Investments	0	79,794	991,371	0
Accrued Interest	0	4	0	0
Federal Securities	0	0	650,000	0
Other Investments	0	0	350,000	0
Unamortized Bond Premiums	0	0	27	0
Accounts Receivable	0	0	0	(75)
TOTAL ASSETS	<u>\$ 7,544</u>	<u>\$ 87,211</u>	<u>\$ 2,353,083</u>	<u>\$ 15,135</u>
<u>LIABILITIES RESERVES AND FUND BALANCE</u>				
Reserve For:				
Accrued Support				
Expenditures	\$ 1,544	\$ 3,515	0	\$ 0
Revolving Fund Cash	0	0	0	0
Expense Advance to				
Employees	0	0	0	0
Stale-Dated Warrents	0	0	404	0
Uncleared Collections	C	0	0	15,210
Fund Balances June 30, 1976	<u>6,000</u>	<u>83,696</u>	<u>2,352,679</u>	<u>(75)</u>
TOTAL LIABILITIES RESERVES AND FUND BALANCES	<u>\$ 7,544</u>	<u>\$ 87,211</u>	<u>\$ 2,353,083</u>	<u>\$ 15,135</u>

The accompanying notes are an integral part of these financial statements

DEPARTMENT OF AGRICULTURE

ALL FUNDS

STATEMENT OF REVENUE COMPARED TO REVENUE ESTIMATES

June 30, 1976

Revenue Category	General Fund		Earmarked Revenue Fund	
	Estimated	Actual	Estimated	Actual
Licenses and permits				
Agriculture and				
natural resources	\$ 92,000	\$ 77,383	\$ 58,700	\$ 69,260
Taxes				
Grain sales			94,940	59,467
Service fees				
Agricultural inspections	71,350	95,820	207,439	369,805
Investment Earnings				
Interest Income				
Sale of documents, merchandise and property				
Merchandise	770	110	5,000	7,028
Rentals, leases & royalties				
Rental				480
Miscellaneous				
Hail Insurance premiums				
Federal Grants				
Income collections and transfers				
Entity transfers			90,112	95,915
Total	<u>\$ 164,120</u>	<u>\$ 173,313</u>	<u>\$ 456,191</u>	<u>\$ 601,955</u>

The accompanying notes are an integral part of these financial statements
(Continued)

DEPARTMENT OF AGRICULTURE

ALL FUNDS

STATEMENT OF REVENUE COMPARED TO REVENUE ESTIMATES
June 30, 1976

<u>Revenue Category</u>	<u>Federal and Private Revenue Fund</u>		<u>Federal and Private Grant Clearance Fund</u>	
	<u>Estimated</u>	<u>Actual</u>	<u>Estimated</u>	<u>Actual</u>
Licenses and permits				
Agriculture and				
natural resources				
Taxes				
Grain sales	\$ 310,000	\$ 412,794		
Service fees				
Agricultural inspections				
Investment Earnings				
Interest Income		5,507	\$ 80,000	\$ 85,959
Sale of documents, and property				
merchandise and property				
Merchandise				
Rentals, leases & royalties				
Rental				
Miscellaneous				
Hail Insurance premiums				
Federal Grants	35,000	23,811	175,000	211,901
Income collections and transfers				
Entity transfers		23,587		
Total	<u>\$ 345,000</u>	<u>\$ 465,699</u>	<u>\$ 255,000</u>	<u>\$ 297,860</u>

The accompanying notes are an integral part of these financial statements
(Continued)

DEPARTMENT OF AGRICULTURE
ALL FUNDS

STATEMENT OF REVENUE COMPARED TO REVENUE ESTIMATES
June 30, 1976

<u>Revenue Category</u>	<u>Hail Insurance</u>		<u>Total</u>	
	<u>Estimated</u>	<u>Actual</u>	<u>Estimated</u>	<u>Actual</u>
Licenses and permits Agriculture and natural resources			\$ 150,700	\$ 146,643
Taxes				
Grain sales			404,940	472,261
Service fees				
Agricultural inspections			278,789	465,625
Investment Earnings				
Interest Income	\$ 89,250	\$ 104,470	169,250	195,936
Sale of documents, merchandise and property				
Merchandise			5,770	7,138
Rentals, leases & royalties				
Rental				480
Miscellaneous				
Hail Insurance premiums	1,575,000	1,480,645	1,575,000	1,480,645
Federal Grants			210,000	235,712
Income collections and transfers				
Entity transfers			90,112	119,502
Total	<u>\$1,664,250</u>	<u>\$1,585,115</u>	<u>\$2,884,561</u>	<u>\$3,123,942</u>

The accompanying notes are an integral part of these financial statements

DEPARTMENT OF AGRICULTURE
ALL FUNDS
Statement of Changes in Fund Balances
June 30, 1976

	General Fund	Commercial Fertilizer ERA	Grain Services ERA	Hail Insurance Administrative ERA
Fund Balances July 1, 1975	\$ 0	\$ 19,319	\$ 31,687	\$ 502
<u>Receipts & Additions</u>				
Appropriations	699,929			0
Revenues	173,313	0	0	0
Income	0	47,736	314,752	95,915
Prior Year Expenditure		0	480	
Adjustment	0	0	290	87
Interest Income	0	0	0	0
Prior Year Income				
Adjustment	0	0	0	0
	<u>\$ 873,242</u>	<u>\$ 67,055</u>	<u>\$ 347,209</u>	<u>\$ 96,504</u>
<u>Deductions</u>				
Expenditures	\$ 622,369	\$ 60,514	\$ 180,658	\$ 94,791
Reversions	250,873	0	0	0
Revenue Refunds	0	661	0	0
Prior Year Expenditure				
Adjustment	0	0	0	0
Transferred to M.S.U.	0	0	0	0
Prior Year Income				
Adjustment	0	0	0	0
Hail Insurance Losses Paid	0	0	0	0
	<u>\$ 873,242</u>	<u>\$ 61,175</u>	<u>\$ 180,658</u>	<u>\$ 94,791</u>
Fund Balance June 30, 1976	<u>\$ 0</u>	<u>\$ 5,880</u>	<u>\$ 166,551</u>	<u>\$ 1,713</u>

The accompanying notes are an integral part of these financial statements.
(Continued)

DEPARTMENT OF AGRICULTURE
ALL FUNDS
Statement of Changes in Fund Balances
June 30, 1976

	Commercial Feed ERA	Extension Service Fertilizer ERA	Experiment Station Fertilizer ERA	Rural Rehabilitati FPGCA
Fund Balances July 1, 1975	\$ 65,938	\$ 0	\$ 0	\$ 66,308
<u>Receipts & Additions</u>				
Appropriations				
Revenues	0	0	0	0
Income	84,971	29,436	29,436	211,901
Prior Year Expenditure	0	0	0	0
Adjustment	0	0	0	0
Interest Income	0	0	0	85,959
Prior Year Income	0	0	0	0
Adjustment	0	0	0	0
	<u>\$ 150,909</u>	<u>\$ 29,436</u>	<u>\$ 29,436</u>	<u>\$ 364,168</u>
<u>Deductions</u>				
Expenditures				
Reversions	\$ 51,690	\$ 0	\$ 0	\$ 129,020
Revenue Refunds	0	0	0	0
Prior Year Expenditure	110	0	0	0
Adjustment	97	0	0	15
Transferred to M.S.U.	0	29,436	29,436	0
Prior Year Income	0	0	0	0
Adjustment	0	0	0	0
Hail Insurance Losses Paid	0	0	0	0
	<u>\$ 51,897</u>	<u>\$ 29,436</u>	<u>\$ 29,436</u>	<u>\$ 129,035</u>
Fund Balance June 30, 1976	<u>\$ 99,012</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 235,133</u>

The accompanying notes are an integral part of these financial statements.
(Continued)

DEPARTMENT OF AGRICULTURE

ALL FUNDS

Statement of Changes in Fund Balances
June 30, 1976

	Marketing Service FPRA	Wheat Research and Market FPRA	Hail Insurance AA	Uncleared Collections and Refunds FPCC
Fund Balances July 1, 1975	\$ 4,903	\$ 87,178	\$ 2,144,533	\$ (75)
<u>Receipts & Additions</u>				
Appropriations	0	0	0	0
Revenues	23,811	414,333		0
Income	23,587	0	1,480,645	0
Prior Year Expenditure Adjustment	0	0	0	0
Interest Income	0	5,507	104,470	0
Prior Year Income Adjustment	0	0	297	0
	<u>\$ 52,301</u>	<u>\$507,018</u>	<u>\$3,729,946</u>	<u>\$ (75)</u>
<u>Deductions</u>				
Expenditures	\$ 45,758	\$ 410,632	\$ 0	\$ 0
Reversions	0	0	0	0
Revenue Refunds	0	1,539	0	0
Prior Year Expenditure Adjustment	210	11,151	0	0
Transferred to M.S.U.	0	0	0	0
Prior Year Income Adjustment	333	0	949	0
Hail Insurance Losses Paid	0	0	1,376,318	0
	<u>\$ 46,301</u>	<u>\$423,322</u>	<u>\$1,377,267</u>	<u>0</u>
Fund Balance June 30, 1976	<u>\$ 6,000</u>	<u>\$ 83,696</u>	<u>\$2,352,679</u>	<u>\$ (75)</u>

The accompanying notes are an integral part of these financial statements.

DEPARTMENT OF AGRICULTURE
ALL FUNDS

Statement of Support Expenditures Compared with Appropriations
For the Year Ended June 30, 1976

	<u>TOTAL AVAILABLE</u>	<u>EXPENDITURES</u>	<u>UNEXPENDED BALANCE</u>
<u>GENERAL FUND</u>			
Administration	\$ 149,023	\$ 136,455	\$ 12,568
Marketing & Transportation	117,335	104,546	12,789
Pesticide Control	202,273	151,386	50,887
Horticulture	194,314	194,059	255
Apiary	<u>36,984</u>	<u>35,924</u>	<u>1,060</u>
TOTAL	\$ <u>699,929</u>	\$ <u>622,370</u>	\$ <u>77,559</u>
<u>FEDERAL FUNDS</u>			
Administration	\$ 24,691	\$ 18,684	\$ 6,007
Marketing & Transportation	46,536	27,352	19,184
Pesticide Control	32,934	17,808	15,126
Wheat Research & Marketing	<u>418,356</u>	<u>382,176</u>	<u>36,180</u>
TOTAL	\$ <u>522,517</u>	\$ <u>446,020</u>	<u>76,497</u>
<u>CETA FUNDS</u>			
Horticulture	\$ 11,325	\$ 3,244	\$ 8,081
Grain Laboratory	<u>7,139</u>	<u>7,125</u>	<u>14</u>
TOTAL	\$ <u>18,464</u>	\$ <u>10,369</u>	\$ <u>8,095</u>
<u>PRIVATE FUNDS</u>			
Administration	\$ 1,403	\$ 1,403	\$ 0
Commercial Feed & Fertilizer	131,367	110,801	20,566
Grain Laboratory	182,213	180,657	1,556
Hail Insurance	<u>95,915</u>	<u>94,790</u>	<u>1,125</u>
TOTAL	\$ <u>410,898</u>	\$ <u>387,651</u>	\$ <u>23,247</u>
TOTAL ALL SUPPORT EXPENDITURES COMPARED WITH APPROPRIATIONS	<u>\$1,651.808</u>	<u>\$1,466,410</u>	<u>\$185,398</u>

The accompanying notes are an integral
part of these financial statements

DEPARTMENT OF AGRICULTURE
ALL FUNDS
Statements of Expenditures by Funds & Programs
For the Year Ended June 30, 1976

	<u>GENERAL FUNDS</u>	<u>FEDERAL FUNDS</u>	<u>CETA FUNDS</u>	<u>PRIVATE FUNDS</u>
<u>ADMINISTRATIVE PROGRAM</u>				
Salaries	\$ 98,256	\$12,369		\$ 1,403
Employee Benefits	11,759	1,440		
Contracted Services	3,330	473		
Supplies & Materials	1,036	167		
Communications	4,304	842		
Travel	8,072	1,742		
Rent	6,763	1,216		
Repair & Maintenance	530	40		
Other Expenses	2,135	29		
Equipment	270	366		
TOTAL	\$ <u>136,455.</u>	\$ <u>18,684</u>		\$ <u>1,403</u>
<u>MARKETING & TRANSPORTATION</u>				
Salaries	\$ 77,769	\$12,048		
Employee Benefits	9,402	1,559		
Contracted Services	2,365	11,991		
Supplies & Materials	2,598	181		
Communications	2,497	1,000		
Travel	3,933	98		
Rent	2,592			
Utilities	0			
Repair & Maintenance	177			
Other Expenses	591	475		
Equipment	2,622			
Transfers	0			
TOTAL	\$ <u>104,546</u>	\$ <u>27,352</u>		

The accompanying notes are an integral
part of these financial statements
(Continued)

DEPARTMENT OF AGRICULTURE
ALL FUNDS
Statements of Expenditures by Funds & Programs
For the Year Ended June 30, 1976

	<u>GENERAL FUNDS</u>	<u>FEDERAL FUNDS</u>	<u>CETA FUNDS</u>	<u>PRIVATE FUNDS</u>
<u>PESTICIDE CONTROL PROGRAM</u>				
Salaries	\$ 90,676	\$10,784		
Hourly Wages	6,641			
Other Compensation	1,400			
Employee Benefits	13,822	180		
Contracted Services	2,740	2,152		
Supplies & Materials	4,371	974		
Communications	3,216	1,655		
Travel	21,067	585		
Rent	5,679	65		
Repair & Maintenance	203	22		
Other Expenses	912	61		
Equipment	615	1,330		
Transfers	0			
Miscellaneous	44			
TOTAL	\$ 151,386	\$17,808		
<u>COMMERCIAL FEED & FERTILIZER PROGRAM</u>				
Salaries				\$ 82,353
Employee Benefits				10,758
Contracted Services				1,799
Supplies & Materials				8,193
Communications				845
Travel				5,066
Repair & Maintenance				421
Other Expenses				275
Equipment				1,091
TOTAL				\$110,801

The accompanying notes are an integral
part of these financial statements
(Continued)

DEPARTMENT OF AGRICULTURE
ALL FUNDS
Statements of Expenditures by Funds & Programs
For the Year Ended June 30, 1976

	<u>GENERAL FUNDS</u>	<u>FEDERAL FUNDS</u>	<u>CETA FUNDS</u>	<u>PRIVATE FUNDS</u>
<u>GRAIN LABORATORIES PROGRAM</u>				
Salaries			\$ 6,166	\$143,947
Employee Benefits			959	18,827
Contracted Services				4,346
Supplies & Materials				5,394
Communications				2,590
Travel				491
Utilities				4,538
Repair & Maintenance				450
Other Expenses				74
Miscellaneous				0
TOTAL			\$ 7,125	\$180,657

APIARY REGULATION PROGRAM

Salaries	\$ 23,169			
Hourly Wages	1,166			
Employee Benefits	3,163			
Operating Expenses	39			
Contracted Services	419			
Supplies & Materials	320			
Communications	2,011			
Travel	2,955			
Rent	1,946			
Repair & Maintenance	88			
Other Expenses	98			
Equipment	550			
TOTAL	\$ 35,924			

The accompanying notes are an integral
part of these financial statements
(Continued)

DEPARTMENT OF AGRICULTURE
ALL FUNDS
Statements of Expenditures by Funds & Programs
For the Year Ended June 30, 1976

	<u>GENERAL FUNDS</u>	<u>FEDERAL FUNDS</u>	<u>CETA FUNDS</u>	<u>PRIVATE FUNDS</u>
<u>HORTICULTURE PROGRAM</u>				
Salaries	\$ 117,711		\$ 2,864	
Hourly Wages	20,359			
Other Compensation	713			
Employee Benefits	17,433		380	
Contracted Services	5,057			
Supplies & Materials	652			
Communications	3,185			
Travel	24,302			
Rent	4,275			
Repairs & Maintenance	185			
Other Expenses	187			
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL	\$ 194,059		\$ 3,244	
	<hr/>	<hr/>	<hr/>	<hr/>
<u>WHEAT RESEARCH & MARKETING PROGRAM</u>				
Salaries		\$ 43,258		
Other Compensation		5,450		
Employee Benefits		5,080		
Contracted Services		54,490		
Supplies & Materials		955		
Communications		25,552		
Travel		20,716		
Rent		3,684		
Repair & Maintenance		185		
Other Expenses		3,104		
Equipment		1,929		
From State Sources		194,032		
From Federal Sources		23,741		
Miscellaneous		0		
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL		\$ 382,176		
	<hr/>	<hr/>	<hr/>	<hr/>

The accompanying notes are an integral
part of these financial statements
(Continued)

DEPARTMENT OF AGRICULTURE
ALL FUNDS
Statements of Expenditures by Funds & Programs
For the Year Ended June 30, 1976

	<u>GENERAL FUNDS</u>	<u>FEDERAL FUNDS</u>	<u>CETA FUNDS</u>	<u>PRIVATE FUNDS</u>
<u>HAIL INSURANCE</u>				
Salaries				\$ 52,763
Other Compensation				145
Employee Benefits				6,711
Contracted Services				2,865
Supplies & Materials				727
Communications				3,576
Travel				23,572
Rent				3,498
Repair & Maintenance				382
Other Expenses				551
Equipment				0
	_____	_____	_____	_____
TOTAL				94,790
	_____	_____	_____	_____
TOTAL ALL FUNDS AND PROGRAMS	\$ <u>622,370</u>	\$ <u>446,020</u>	\$ <u>10,369</u>	\$ <u>387,651</u>

The accompanying notes are an integral
part of these financial statements

DEPARTMENT OF AGRICULTURE

Notes to the Financial Statements For the Fiscal Year Ended June 30, 1976

Summary of Significant Accounting Policies

The accounting policies of the Department of Agriculture conform to generally accepted accounting principles as applicable to governmental units, except for the accounts not on the Statewide Budgeting and Accounting System. Following is a summary of the significant policies.

Basis of Accounting

The modified accrual basis of accounting is followed for all funds. Under this method, expenditures are recorded when the liability is incurred and revenues are recorded when received in cash, unless susceptible to accrual; i.e., measurable and available to finance the department's operations, or of a material amount and not received at the normal time of receipt.

Inventories

The supplies used by the various programs are expensed as incurred and, consequently, there is no formal inventory of supplies.

General Fixed Assets and Depreciation

General fixed assets are recorded as expenditures in the various funds at the time of purchase. Such assets are not capitalized at cost in a general fixed assets group of accounts, and depreciation is not provided on general fixed assets.

Vacation and Sick Pay

Liabilities incurred because of unused vacation and sick pay by employees are not recorded. The expenditure is recorded when paid. Permanent employees are allowed to accumulate and carry over a maximum of two years vacation into each calendar year. Permanent employees can accumulate an unlimited amount of unused sick leave. Upon termination, permanent employees having unused accumulated vacation and sick leave are paid 100% of unused vacation time and 25% of unused sick leave based upon their current pay rate.

Encumbrances

All funds employ encumbrance accounting under which all commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation. The balances in the reserve for encumbrances account of each fund is included in the accrued support expenditure accounts of each fund.

Appropriations

Appropriations in the general fund and in the federal and private revenue fund are made by the legislature for operating purposes. Expenditures against these appropriations are funded by the corresponding funds at the state level. Unexpended or unencumbered balances in these appropriations revert to the respective state funds at year end.

Accounts Not On Statewide Budgeting and Accounting System

The Department of Agriculture maintains one imprest cash fund in the amount of \$500.00. The flow of cash through this account is not reflected in SBAS, but the balance is reflected in the general fund.

The Board of Hail Insurance does not maintain formal accounting records in SBAS for receivables of hail insurance premiums still outstanding. As of June 30, 1976, the board had \$705,332.00 in receivables not recorded in SBAS.

The Rural Rehabilitation Program had assets of \$1,014,087.00 not recorded in SBAS as of June 30, 1976. The following items comprise the asset amount: direct loans of \$382,345.00, real estate loans of \$566,742.00, and a \$65,000.00 Certificate of Deposit.

Investments

The Department of Agriculture maintains investments through the State Board of Investments in the following amounts:

Rural Rehabilitation --- FPGCA	\$ 172,794.00
Wheat Research and Market --- FPRA	79,794.00
Hail Insurance --- AA	<u>991,371.00</u>
	\$1,243,959.00

On July 22, 1976, an additional \$449,485.00 was invested by the Hail Insurance Board with the State Board of Investments.

As of June 30, 1976, the Hail Insurance Board also had an additional \$1,000,000.00 in investments not with the State Board of Investments in the following amounts:

Federal Land Bank Securities	\$ 450,000.00	at 6.35% maturing July, 1976
Federal Land Bank Securities	200,000.00	at 6.35% maturing October, 1977
Firestone Tire and Rubber Co. Sec.	350,000.00	at 7.30% maturing October, 2001
	<u>\$1,000.000.00</u>	

The maturing Federal Land Bank Securities in the amount of \$450,000.00 were used for the additional investment of \$449,485.00 with the State Board of Investments.

Uncleared Collections and Refunds --- FPGC

The cash in treasury of \$15,210.00 will be cleared to the respective revenue accounts during fiscal year 1976-1977. The accounts receivable of \$75.00 is an accounting error that will be cleared off the accounts in fiscal year 1976-1977. The uncleared collections and refunds FPGC is used primarily for doubtful checks that are received that have not cleared the bank.

AGENCY REPLY



THOMAS L. JUDGE
GOVERNOR

STATE OF MONTANA
DEPARTMENT OF AGRICULTURE

GEORGE LACKMAN
COMMISSIONER
1300 BLOCK CEDAR STREET
AIRPORT WAY BUILDING WEST
HELENA, MONTANA 59601

TELEPHONE:
AREA CODE 406
449-3144

November 12, 1976

NOV 15 1976

MONTANA LEGISLATIVE AUDITOR

Mr. Morris L. Brusett
Legislative Auditor
Office of the Legislative Auditor
State Capitol
Helena, Montana 59601

Dear Mr. Brusett:

The State of Montana, Department of Agriculture, submits the following response to the audit performed by Mostad and Jackson, Certified Public Accountants, under contract with your office.

Page 7 - CASH

Recommendation: "We recommend that the Department of Agriculture establish a policy of separation of duties concerning the contingency revolving fund."

Response: We concur with the recommendation. The recommendation has been implemented whereby separation of duties is achieved by utilizing a clerk typist position in conjunction with the accountant position.

Page 7 - PROPERTY, PLANT, AND EQUIPMENT

Recommendation: "We recommend that the Department of Agriculture place a value on all existing equipment and update all records to reflect those valuations."

Response: We concur with this recommendation. The Department of Agriculture has adopted corrective action by assigning an estimated fair market value to equipment. All inventories are reviewed periodically and kept up to date.

Page 8 - CASH DISBURSEMENTS AND EXPENDITURES

Recommendation: "We recommend that the Department of Agriculture establish a procedure for cancelling all invoices."

Response: The Department of Agriculture has initiated cancelling

all invoices by stamp in addition to attaching a copy of the transfer warrant claims when the invoices are paid.

Page 9 - PAYROLL

Recommendation: "We recommend that the Department of Agriculture establish procedures for authorizing signatures on payroll documentation and for ensuring that all payroll time sheets are timely received so that all employees are paid on a consistent basis."

Response: The Department of Agriculture has employees in locations throughout the state of Montana. Mailing time required to receive time and attendance reports has forced the use of a one week time lag system for some employees located outside of the Helena, Great Falls, and Bozeman area. This recommendation will be difficult to initiate because of the mail caused delay in receiving time and attendance reports; however, steps will be taken to correct the situation to the extent possible.

Page 9 - TRAVEL

Recommendation: "We recommend that one more person be assigned to assist the chief accountant in the screening of the travel claims for completeness, documentation, and clerical errors."

Response: We concur. Travel claims are approved by supervisors and checked by division secretaries and clerk typists. We have a clerk typist assist the chief accountant in screening travel claims.

Page 10 - RECEIVABLES AND INVESTMENTS

Recommendation: "We recommend that a system be established in SBAS to provide full disclosure of all assets of the Rural Rehabilitation Program."

Response: We concur and are in the process of such implementation.

Recommendation: "We recommend that the Department of Agriculture request a change in accounting method to reflect the Rural Rehabilitation Program's disbursement of cash for loans as an asset and not as an expenditure."

Response: We concur with the recommendation and will take proper action as recommended.

Page 11

Recommendation: "We recommend that the Hail Insurance Board in conjunction with the Department of Agriculture ask for a feasibility study to determine if a system could be implemented through SBAS that would allow the board to provide additional control and accountability for the receivables and also to provide an additional back up of records in case the originals should ever be destroyed."

Response: We concur with the recommendation and will take appropriate action in requesting such a feasibility study.

Page 12 - GRAIN LAB AT GREAT FALLS

Recommendation: "We recommend that the Grain Lab obtain additional personnel to assist with the larger work load and provide additional internal control. We also recommend that the Grain Lab revise its current procedures to provide for the depositing of all monies daily."

Response: We concur with the recommendation. The Department will request permission to employ additional clerical help and initiate daily deposits.

Recommendation: "We recommend that the Grain Lab undertake a review of current property, plant, and equipment procedures to correct the deficiencies noted; i.e., to dispose of all obsolete equipment, to update property lists, and to insure that all equipment is properly marked."

Response: We concur with the recommendation and will take steps to correct the situation.

Page 13

Recommendation: "We recommend that the Grain Lab implement procedures to record this outstanding receivable in SBAS."

Response: We will consult SBAS to determine the feasibility of such action and implement if possible.

REVIEW OF PRIOR AUDITSPage 13 - LOSS PREMIUM OFFSET PROCEDURES

Recommendation: "We recommend that the board (Hail Board) revise

its procedures to retain premium offsets in the state treasury and notify county treasurers by letter of the amounts by which premium assessments should be reduced."

Response: We concur that such action should be studied. We will recommend to the Hail Board that they should consult the counties and Department of Revenue as to the feasibility of this recommendation and that appropriate action should be taken.

Page 14

Recommendation: "We recommend the board seek legislation to delete the requirement to pay two percent of the gross annual levy in the state to the General Fund."

Response: We concur with the recommendation. Such action was sought by House Bill 216 and defeated by the first session, 43rd Legislature. We will again submit proper legislation for legislative action.

Page 15

Recommendation: "We recommend the board notify the state auditor to mail warrants in payment of board claims directly to the payees."

Response: We concur and will so recommend to the board.

Page 15 - Licensing Procedure

Recommendation: "We recommend that the department investigate the feasibility of using data processing equipment to print, issue, control, and monitor the various licenses issued by the department."

Response: We concur with the recommendation. The department has submitted a budget request for an appropriation to implement data processing.

Page 17 - Mineral Rights

Recommendation: (page 18) "We recommend that until such time as an amendment to the present agreement is sought with the Federal Government, the Department of Agriculture discontinue the implementation of the recommendation presented above."

Response: We concur with the recommendation.


Page 18 - STAFF

Recommendation: "We recommend that the Department of Agriculture obtain additional staff to provide internal control and prevent clerical errors."

Response: We concur with the recommendation. A request to facilitate this recommendation is incorporated in our modified budget proposal. Additional staff is mandatory to eliminate clerical errors caused by excessive workload.

If the Department of Agriculture can be of any further assistance, please contact us.

Sincerely,

A handwritten signature in dark ink, appearing to read "George Lackman", written in a cursive style.

George Lackman
Commissioner

CS

